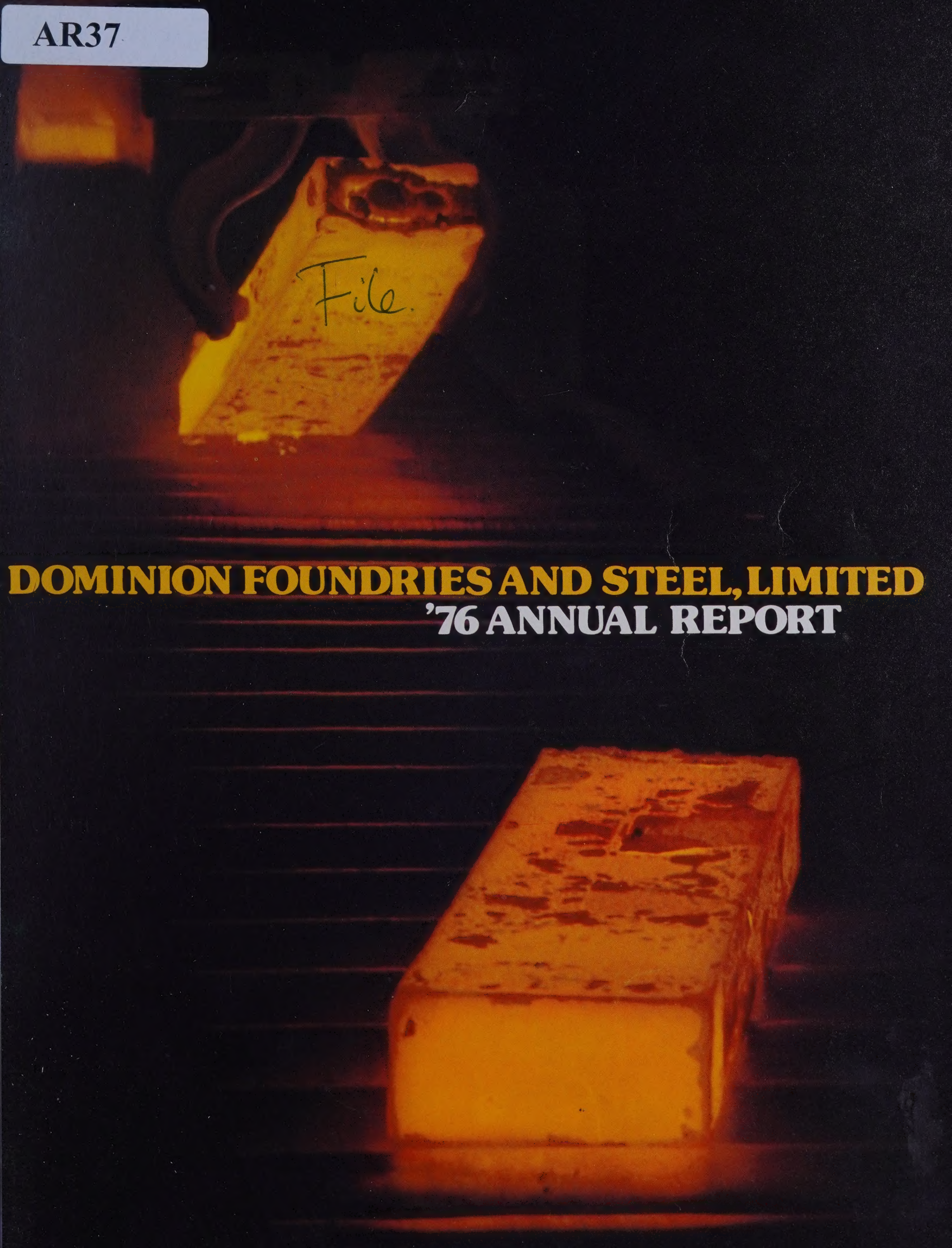

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DOMINION FOUNDRIES AND STEEL, LIMITED
'76 ANNUAL REPORT


DOMINION ENGINEERING

Highlights

	1976	1975	Increase (Decrease)
Production of ingots and castings – net tons*	**3,335**	3,053	9.2%
Shipments of flat rolled products and steel castings – net tons*	**2,652**	2,348	12.9%
Sales*	**$903,874**	$738,083	22.5%
Net income*	**$ 66,699**	$ 55,473	20.2%
Net income – per common share	**$ 4.17**	$ 3.46	
Net income – percent of sales	**7.4%**	7.5%	
Net income – percent of average capital employed	**7.8%**	7.5%	
Net income – percent of average common shareholders' equity	**14.6%**	13.2%	
Dividends declared – total*	**$ 24,084**	$ 23,656	1.8%
Dividends declared – per common share	**$ 1.46¾**	$ 1.44	1.9%
– per preferred share	**$ 4.75**	$ 4.75	—
Capital expenditures – manufacturing*	**$ 84,057**	$100,234	(16.1%)
Expenditures on mining properties*	**$ 13,634**	$ 18,522	(26.4%)
Depreciation*	**$ 41,810**	$ 37,817	10.6%
Average number of employees	**11,500**	11,700	(1.7%)
Number of holders of common shares	**15,298**	15,932	(4.0%)

*in thousands

On pourra se procurer le texte français de ce rapport annuel en s'adressant au secrétariat de la Compagnie, case postale 460, Hamilton, Ontario.

The annual and a special general meeting of shareholders will be held at the offices of the Company in Hamilton, Ontario, on Friday, April 29, 1977, at 12:00 o'clock noon.

Index

Dofasco's new 5-stand tandem cold mill, which incorporates the latest technology, went into production in mid '76.

Directors

George H. Blumenauer
Chairman and President, Otis Elevator Company Limited, Hamilton

R. Ross Craig
Executive Vice President – Commercial

Roger G. Doe
Partner, Campbell, Godfrey & Lewtas, Toronto

Robert C. Dowsett
President, Crown Life Insurance Company, Toronto

Dr. John R. Evans
President, University of Toronto, Toronto

William C. Hassel
Vice President – Operations

Howard J. Lang
Chairman and Chief Executive Officer, Canron Limited, Montreal

John D. Leitch
President, Upper Lakes Shipping Ltd., Toronto

Frank H. Logan
Deputy Chairman, Dominion Securities Limited, Toronto

W. Harold Rea
Chairman, Great Canadian Oil Sands Limited, Toronto

John G. Sheppard
Executive Vice President – Financial

Frank H. Sherman
President and Chief Executive Officer

Officers

Frank H. Sherman
President and Chief Executive Officer

R. Ross Craig
Executive Vice President – Commercial

John G. Sheppard
Executive Vice President – Financial

David A. Lindsey
Vice President – Raw Materials, Purchases and Traffic

William C. Hassel
Vice President – Operations

F. John McMulkin
Vice President – Research

William J. Stewart
Vice President – Product Quality and Development

Jack Plumpton
Vice President and Comptroller

David H. Samson
Vice President – Engineering

Paul J. Phoenix
Vice President – Planning

Donald A. R. Pepper
Vice President – Personnel

William D. Simon
Vice President – Sales

Thomas Van Zuiden
Treasurer

H. Graham Wilson
Secretary

Alan D. Laing
Assistant Comptroller

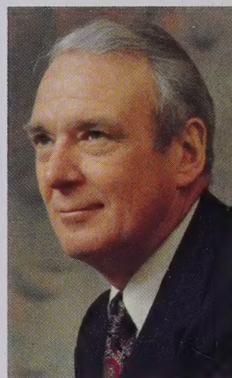
Bill P. Solski
Assistant Treasurer

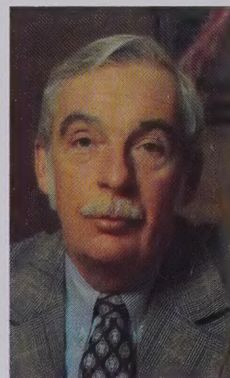
Robert J. Swenor
Assistant Secretary

Robert E. Wodehouse
Assistant Comptroller

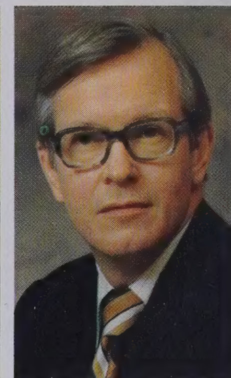
Hendrik A. Keur
Assistant Comptroller

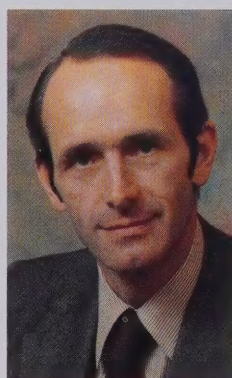
Robert W. Grunow
Assistant Comptroller

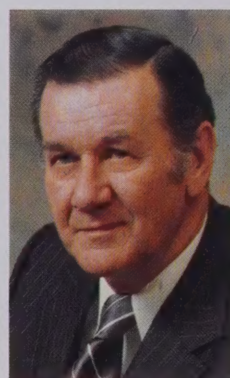

George H. Blumenauer

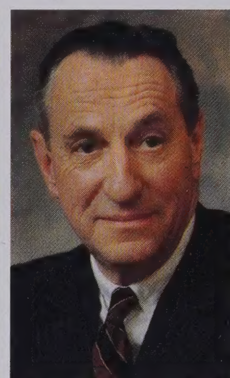

R. Ross Craig

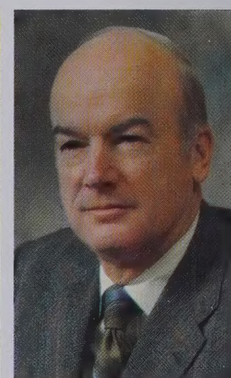

Roger G. Doe

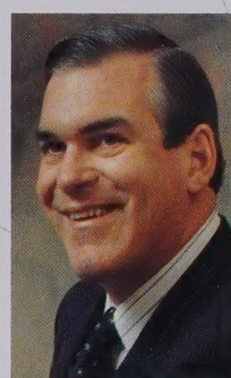

Robert C. Dowsett


Dr. John R. Evans

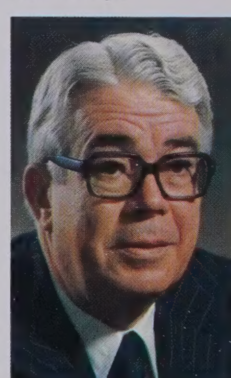

William C. Hassel

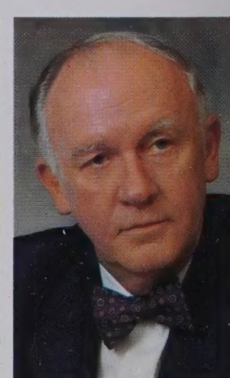

Howard J. Lang


John D. Leitch


Frank H. Logan


W. Harold Rea


John G. Sheppard


Frank H. Sherman

President's message

1976 was a good year with record production and shipments of steel. Our sales were also a new high at $904 million and net income of $67 million was the second highest in our history. Income as a percentage of sales at 7.4% was about the same as 1975, but was significantly lower than the past five years' average of 8.8%.

In 1977 the outlook through the first quarter is reasonably good. However, sustained operations throughout the year will depend on many factors including improvements in capital investment and good levels of consumer spending.

We are optimistic about Canada's future. Canadians must, however, be aware of the need to live within their means. To have more, we must produce and sell more. In some industries Canadian wages now exceed American levels. This, combined with smaller markets in Canada, results in higher costs and prices for our goods. As a result, Canada has become less competitive internationally and further capital investment here is discouraged.

Government and the economy

In October, the Federal Government published "The Way Ahead" which invited discussion on the future of Canada. In replying we commended the Government for their approach. We appreciate the need to work with governments to continue to improve living standards of all Canadians, but this cannot be achieved without a strong economy.

The market system, which has served this country so well for so many years, is not obsolete. It should not be so modified as to destroy its ability to perform well in the future.

Our submission stated that governments cannot continue to expand services without placing an intolerable burden on the taxpayer or continuing to finance these programs through greater borrowing against the future of Canada. There is a real limit to the level of government expenditures that Canadians can afford.

We support strongly the Federal Government's efforts to stimulate the economy through tax policies which provide for a rapid write-off of manufacturing equipment. The continuation of this provision together with other measures including investment tax credits will assist business significantly in expanding their operations and improve the economy.

The Ontario Government's fiscal restraint over the past year is commendable. Also, the long term extension of the retail sales tax exemption on production machinery and equipment will help stimulate capital investment.

Dofasco will continue to support the Anti-Inflation Board's controls as a temporary measure to help reduce high rates of inflation.

It is difficult, however, to understand the reason for restricting profit margins when price increases are already controlled, and are in effect limited to the cost increases incurred by a company. In these circumstances, efforts to increase profit margins by improving productivity, cutting costs and increasing efficiency are not encouraged. This obviously limits profits available to companies for expansion to increase output and provide employment.

Expansion

Major projects currently under way are designed to increase our steelmaking capacity from 3.2 to approximately 4 million ingot tons and our hot rolling capacity by approximately 400,000 tons to 3.7 million.

Directors and management

It is with deep regret that we report the death of Harry N. Bawden in March, 1976. Mr. Bawden served as a Director of Dofasco for 26 years, a period which has seen the Company achieve phenomenal growth. He was an astute financial man and also a man of unfailing good humour. His wise counsel on often-times difficult decisions will long be remembered.

To fill the vacancy on the Board, the Directors elected Mr. Frank H. Logan who is Deputy Chairman, Dominion Securities Limited.

In January of this year, W. D. Simon was appointed Vice President, Sales. Mr. Simon joined Dofasco in 1949 and was General Sales Manager prior to this appointment.

On behalf of the Board of Directors, I would like to express our appreciation to all employees for their fine performance during this year of records and to our customers, suppliers and shareholders for their continued strong support.

F. H. Sherman
President

Hamilton, Ontario
March 11, 1977

Financial

Profits and return on sales

Net income in '76 was $67 million, an increase of $11 million over '75. This was lower, however, than the record income of $70 million in '74. Net income per common share was $4.17 compared to $3.46 in '75 and $4.41 in '74.

Due to cost increases, net income as a percent of sales continued to decline. The '76 rate of 7.4% compares with 7.5% in '75, 10.3% in '74 and an 8.8% average over the last five years.

Increased selling prices, within A.I.B. regulations, and record shipments of flat rolled steel products resulted in increased steelmaking profits despite higher costs, particularly for energy.

Subsidiaries

National Steel Car, which manufactures railway rolling stock, began '76 with a good level of orders resulting in sales of $111 million compared with $105 million in '75. In the last half of '76, however, few orders for railway cars were received, resulting in very serious cutbacks in production and employment.

Prudential Steel Ltd. of Calgary had a poor year due to weak markets for small diameter pipe and hollow structural steel products.

BeachviLime Limited, which provides the bulk of Dofasco's burned lime requirements from its quarry near Ingersoll, Ontario, had increased sales but a profit decline. The lime producing facilities are being expanded with the construction of a new rotary kiln and related equipment. The estimated cost of this project is $7.4 million with completion expected in late '77.

Baycoat Limited, a 50% owned joint venture, had a good year with significantly increased sales and earnings. A third production line is under construction to increase capacity by 50% when completed in mid '77.

Financial position

Working capital of $253 million at year-end represents a net increase of $42 million over the '75 year-end position. Investment in inventories decreased by $20 million to $223 million, principally due to lower inventory at National Steel Car because of their reduced level of operations. The dollar investment in steelmaking inventories remained about the same. At '76 year-end, cash and short term securities totalled $57 million, including $20 million of short term securities held by National Steel Car.

Major sources of funds were $126 million from operations and $59 million from a new debenture issue. The major use of funds during the year was for capital expenditures of $91 million on manufacturing and mining facilities and equipment. Further details are set out on page 15.

Long term debt

The Company issued $60 million in 20-year sinking fund debentures on March 15, 1976 at $99.50 with an interest rate of 10⅜%. An additional $75 million in 20-year, 9⅝% sinking fund debentures were issued on February 15, 1977 at $99.50. The Company also has available a revolving bank credit of $100 million, none of which was used in '76.

Dividends

Dividends of $0.36 and $0.306 were declared in each of the first three quarters of the year on the Class A and Class B common shares respectively. In the last quarter of '76, the Company raised the quarterly dividend, payable on January 1, 1977, to $0.3875 on the Class A and $0.329375 on the Class B shares. These increases were the maximum allowable under the Anti-Inflation Act.

Common and preferred dividends (including related tax paid on undistributed income) declared in '76 totalled $24,084,000 compared to $23,656,000 in '75.

Production and planning

A record was achieved in production of ingots and castings in '76 – 3,335,300 tons – an increase of 9.2% over '75. Significant production records were also set in the ironmaking and hot rolling divisions. Excellent production performance was made possible by the efforts of all employees in establishing tighter controls over operations. As only one blast furnace lost production time due to relining, a steady supply of molten iron was available for steelmaking.

Our second 5-stand tandem cold mill was started up in mid '76. This 72-inch mill incorporates the most modern rolling technology and will provide increased cold rolling capacity and improved product quality. Tonnage during the break-in period has been good and has relieved the production load on existing equipment.

Capital spending on expansion of manufacturing and mining facilities in '76 totalled $91 million after deducting investment tax credits of $4.5 million. Large capital expendi-

tures will continue next year as work progresses on several major projects. As of December 31, 1976 it was estimated that $288 million will be required over two to three years to complete authorized manufacturing and mining capital projects of Dofasco and its subsidiaries.

The following are major projects under construction or being engineered:

–A battery of 35 coke ovens, scheduled to be completed in '78, will increase cokemaking capacity by approximately 35% or 460,000 tons of coke annually.

–A second basic oxygen steelmaking plant, scheduled for completion in '78, will have an initial capacity of one million ingot tons. This plant is designed so that its capacity may later be increased in stages to 4.5 million ingot tons.

–The installation of eight new soaking pits and a new crop shear is expected to increase annual hot rolling capacity to 3.7 million ingot tons in '78.

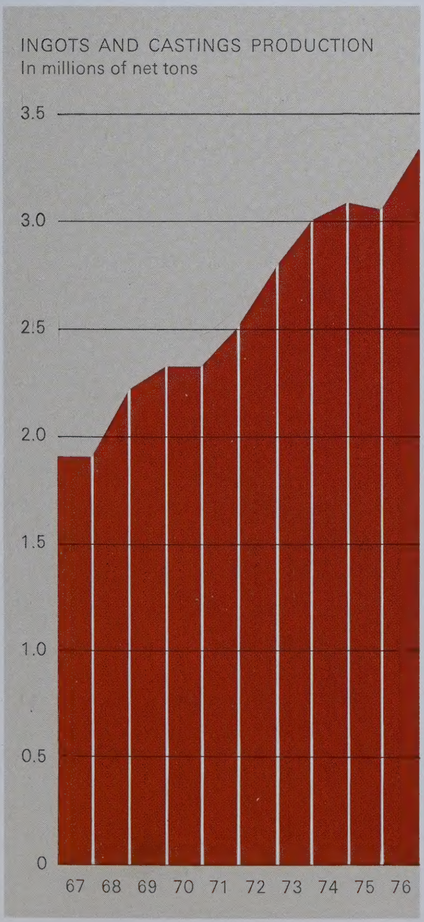
–Additions to finishing facilities include construction of a 66-inch hot strip slitter and expansion of the No. 1 continuous heat treating line for electrical steels, both to be completed in '77.

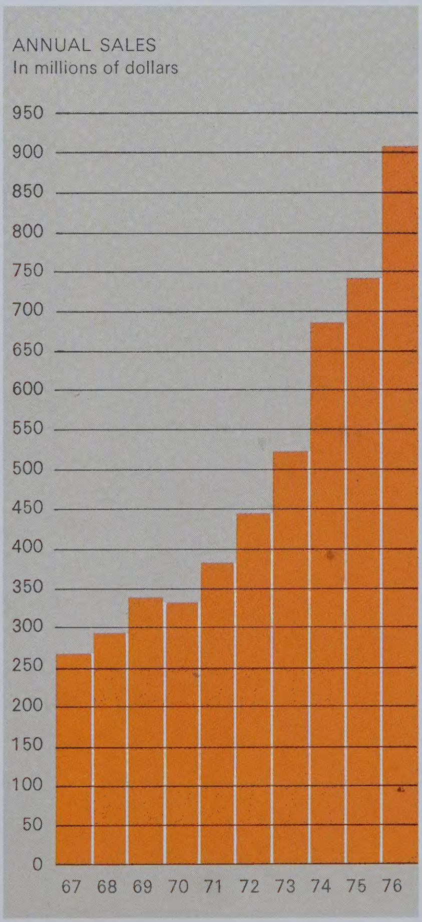
Commercial

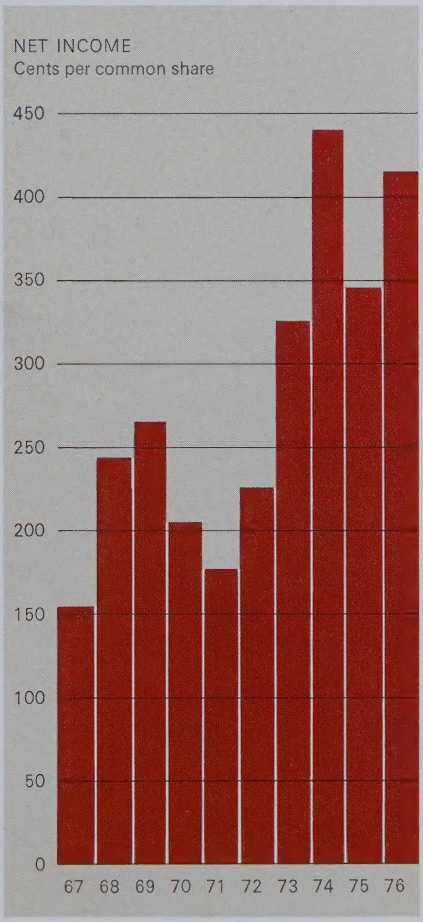
A 13.8% increase in flat rolled steel shipments to a record 2,626,069 net tons, together with higher selling prices within the A.I.B. regulations, pushed consolidated sales to a record $904 million.

The Canadian flat rolled market during '76 was mixed. Consumer products showed reasonable increases, while those associated with the capital investment sector declined. Cold rolled, galvanized and tin plate shipments all increased on the strength of good demand from the automotive, appliance and container industries. Plate and non-automotive hot rolled shipments were off substantially, reflecting the relatively weak performance of capital spending in '76.

Casting shipments dropped 35.9% to 25,904 net tons, reflecting a de-







cline in railway car orders and a weak capital goods market.

We estimate that total flat rolled shipments to the Canadian market, including imports, declined 4% during '76. Despite this declining market, Dofasco managed to achieve a higher level of participation. This performance reflects the efforts of all departments in maintaining good service and quality products.

Outlook

The current recovery has not developed on a very broad base and this makes predicting the '77 economy quite difficult. The capital investment sector continues to be the principal area of concern. General reservations about long term growth in demand, uncertainty surrounding government controls and the erosion of corporate profits have all played a part in restraining investment.

1977 could see some resolution of these problems and any improvement should be reflected in demand for flat rolled steel.

Shipments of flat rolled products to the construction sector are not expected to improve until capital investment strengthens. Higher levels of consumer spending would help maintain automotive and improve appliance steel requirements.

The demand for industrial containers should be stronger in the second half of the year. Modest growth is expected in tin plate usage for the food and beverage industry, given the still uncertain impact of recent legislation governing the sale of nonreturnable containers in Ontario.

The order backlog at year end was low for National Steel Car, and a slow first quarter is indicated both for National and the foundry. A new order received in February for 824 grain hopper cars from the Canadian Wheat Board has improved the '77 outlook. Unless further major orders are received, '77 operations will be significantly below '76.

A better outlook for the western Canadian oil and gas industry in '77 has improved the prospects for Prudential Steel during the first half of the year.

BeachviLime's sales outlook reflects expected strong demand for limestone and lime products throughout '77.

Raw materials

It has long been the Company's policy to acquire ownership interests in mines to provide the iron ore pellets for steelmaking operations. Our most recent project is a 16% ownership interest in the expansion of a mine and pellet plant at Eveleth, Minnesota, from which a small amount of pellets was received in '76. At the full production rate, expected to be achieved in '77, the Company will be entitled to 675,000 gross tons of pellets annually through a combination of its ownership interest and a purchase agreement.

Our '77 pellet requirements are estimated at approximately 3.8 million gross tons. Our share of production from the four producing iron ore mines in which the Company has ownership interests; Adams, Sherman, Wabush and Eveleth, should be slightly in excess of these requirements.

Based on current annual mine production levels, it is estimated that the proven ore reserves are sufficient to enable production to continue for 21 years at Adams, 23 years at Sherman, 63 years at Wabush and 46 years at Eveleth.

The Company also owns properties located near Nakina, Ontario which include two iron ore bodies containing estimated proven ore reserves equivalent to approximately 97 million gross tons of iron ore pellets. Dofasco is also investigating the possible future development of

During '76, records were set in ingot production, hot rolling and steel shipments. A crane loads red-hot ingots into a truck at the Company's steelmaking division (above); a stacker crane loads a coil on a truck for shipment to a customer (far right); and Dofasco's slabbing mill processes an ingot in the hot rolling division (right).

other iron ore properties in northern Ontario.

During '76, Dofasco's coking coal requirements were met largely from purchase contracts and open market purchases from traditional sources in the United States and from Itmann Coal in West Virginia, in which Dofasco has a 9% ownership interest. In anticipation of supply problems in '77, we obtained additional quantities of coal in '76 and have enough coal on hand to maintain full coke production for the first six months of '77.

U.S. sources continue to be subject to productivity and operational problems. The Company is investigating several coal properties in western and eastern Canada and the United States in order to secure additional reliable sources of good quality coal.

Dofasco's '77 coal requirements are estimated to be 2 million tons. Itmann will provide about 200,000 tons and the remainder will be obtained from a combination of contract sources, open market purchases and inventory on hand.

Research and product development

Research activity in '76 focussed on achieving greater efficiency in operations, improving product quality, and on the design and development of products to meet specific market needs. Projects included:

- work directed at increasing yields and productivity through better control of the steelmaking process;
- design and installation of an experimental cold rolling lubricant cleaning system, yielding significant savings in oil consumption on the one mill on which it has been installed;
- under contract from the Canadian Government, an evaluation of the low temperature properties of various cast steels being considered for arctic service;
- automobile corrosion studies to develop new and improved types of steels and coatings for making cars more rust-resistant.

Product development efforts in '76 concentrated on the housing and transportation industries. In addition to further development of steel basement systems, an experimental steel house was built. This will serve as a field laboratory for testing new components and systems to further the use of steel products in residential construction – a promising future market.

In the transportation field, Amtrak, a U.S. passenger rail corporation, has signed a lease-purchase agreement for two complete LRC (Light, Rapid, Comfortable) high speed trains. The trains feature advanced capabilities including a Dofasco-engineered tilting body suspension system permitting operation on curves at higher than usual speeds. In addition to engineering this system, Dofasco will also supply completed "trucks" and wheel assemblies for the units.

The product development group is also completing the engineering of a new truck for Toronto's GO Transit bi-level cars and is part of a group developing a stable and steerable freight car truck.

The environment

Controlling air and water pollution continues to be a major concern for Dofasco. While the problems are many and some of the solutions have not yet been found, considerable progress has been made. Our studies reveal that the amount of particulate matter Dofasco discharged into the air in '76 was almost 50% less than the amount discharged in '69, despite a 46% increase in production over this period. Discharges into the water also show significant reductions in the last 10 years.

The Company has proceeded with a number of environmental control installations during '76 with the object of meeting Ontario Ministry of

A paint line (right) at Baycoat Limited, a 50% owned joint venture. The company, a producer of prepainted steel, enjoyed increased sales and earnings in '76.

BeachviLime Limited (below), a subsidiary, provides Dofasco with its burned lime requirements.

the Environment standards. Major projects in progress relate to:

- collection of emissions produced during the charging and tapping of the basic oxygen furnaces;
- treatment of cold mill waste water;
- expansion of the thickeners used in clarifying waste water from steelmaking and blast furnace operations;
- elimination of waste water effluents from the process which desulphurizes coke oven gas.

Capital expenditures for environmental control in the '70's totalled approximately $53 million, including $9.4 million in '76. Total operating costs of control equipment in '76 were approximately $10 million.

Occupational health

Preventive medicine has long been the foundation of Dofasco's occupational health program. The Company has a fully equipped medical complex, staffed with three full-time physicians as well as nurses and medical technicians. Employees receive regular medicals with special emphasis on the relationship between the employee's health and his or her job.

Specialized medical surveillance programs are also provided for groups in specific work areas. The medical department also screens potential hazards of new materials used in the plant.

As part of Dofasco's overall occupational health program, our industrial hygiene group regularly evaluates working conditions that may possibly be hazardous to health. This information is used to develop and implement programs to protect employees from excessive exposures to such conditions as noise, dust, fumes and chemicals.

In July '76 the Ontario Government issued a report dealing with the potential health hazards of coke oven emissions. The report recommended that coke oven employees wear protective respiratory masks to reduce their exposure to these emissions.

We have known about the potential problems of coke oven emissions since '69. In that year, we introduced a program both to control emissions and to protect people from possible problems.

Our program includes improved operating practices to minimize emissions, the wearing of appropriate respirators while working at the ovens, regular sampling and monitoring of exposure levels and detailed medical examinations. Dofasco also has an educational program designed to inform employees of proper clean oven operations as well as the proper use of protective equipment.

We are committed to continued

An experimental house was built by Dofasco during '76 as a field laboratory for evaluating new uses for steel in residential construction.

investigation and improvements, as well as the adoption of the best practical technology in the field of occupational health, to further improve the work environment.

Employee relations

Recreation has always played an important part in the life of Dofasco and its people. For 33 years the Company has had an organized recreation program which currently includes over 40 activities for employees and their families. During '76 the Company started work on a new 50-acre employee recreation complex located south of Hamilton. Plans for the first phase, scheduled for completion in '77, include a 400-metre track, five baseball diamonds, a soccer and football field and a golf driving range.

The Company offers a wide variety of education and training programs. During '76 over 400 people made use of Dofasco's tuition refund program which allows employees to further their studies at secondary and post-secondary institutions. Also, during the year, 367 employees participated in apprenticeship programs in instrumentation, electrical, mechanical, masonry and refrigeration trades training.

The Company introduced a series of analytical trouble-shooting courses to train operating and related staff personnel in approaches to job situation problem solving. Over 200 employees participated in this program. At the present time, 206 employees are taking part in all three phases of Dofasco's supervisory training program.

Dofasco has long believed in sharing its profits with those who have helped to earn them. Our profit

As part of Dofasco's occupational health program, the Company stresses clean coke oven operations to help minimize emissions as well as requiring the wearing of proper protective equipment, including respirators, while working at the coke ovens (above).

Special medical surveillance programs for groups in specific work areas include pulmonary function testing at Dofasco's medical department (right).

sharing plan began in 1938 and we are convinced that sharing the rewards of increased effort is an important factor in the Company's success. In '76, profit sharing provided $1,226 for each fund member reflecting greater earnings on steelmaking operations. This is up from $962 in '75.

Dofasco has always stressed the importance of the individual. The Company's radio advertisements, which introduce the public to Dofasco and its employees, continue to be favourably received across Canada.

Last year 32,000 people attended the Company's 40th annual Christmas party for employees and their families. Our Quarter Century Club began 27 years ago. In '76, 168 employees joined the Club, bringing the total membership to 1,807.

Dofasco's benefit program provides comprehensive medical and retirement security for all employees. Because of inflation, supplementary pension payments to retirees were improved and the group eligible for these payments was expanded.

Government relations

As a company we confer frequently on a wide variety of matters with both elected officials and staff at all levels of governments. This is accomplished through direct consultations and written briefs as well as participation in organizations such as Chambers of Commerce and the Canadian Manufacturers' Association.

In addition to a written response to "The Way Ahead" our discussions with federal officials over the past year have included comments on a better tax treatment of dividends, improvements in the Anti-Inflation Board's rules and suggestions for new measures in future federal budgets to stimulate the economy and restore general consumer and business confidence.

We took part in a presentation made by the Ferrous Industry Energy Research Association to the Federal Government which described steel industry activities and efforts in the field of energy conservation.

At the provincial level, we presented a submission to the Royal Commission on Electric Power Planning. This submission stressed that a reliable and uninterrupted supply of electric power is essential, not only to Dofasco, but also to the provincial economy as a whole and that revenues should be generated by a fair and adequate rate structure for all Ontario power users.

In a brief to the Commission reviewing proposals for property tax reform in Ontario, Dofasco agreed with the objectives of establishing an equitable distribution of the tax burden and broadening the local tax base by removing exemptions. We recommended that a detailed presentation be provided to all taxpayers, which would compare realty and business assessments and tax under the present and proposed reform system.

We commented on new Ontario legislation concerning employees' health and safety and in principle agreed with its objectives. In our opinion, however, we have outstanding health and safety programs and certain provisions of this legislation could be counterproductive and have the unintended effect of interfering with existing programs. We feel that the best approach is to talk with employees directly and not through representative groups as provided for in this legislation.

Federal Opposition Leader Joe Clark toured Dofasco's operations in the summer of '76.

Consolidated statement of income and retained earnings

for year ended December 31, 1976 (with comparative figures for 1975 – in thousands of dollars)

		1976		1975
Income				
Sales (note 11)		**$903,874**		$738,083
Cost of sales (excluding the following items)	**$741,190**		$602,686	
Depreciation	**41,810**		37,817	
Employees' profit sharing	**8,652**		6,436	
Interest on long term debt (less discount on purchase of debentures)	**22,972**	**814,624**	15,767	662,706
Income from operations		**89,250**		75,377
Income from investments (including corporate joint ventures, 1976 – $1,616; 1975 – $676)		**6,249**		4,596
Income before income taxes		**95,499**		79,973
Income taxes		**28,800**		24,500
Net income for year		**$ 66,699**		$ 55,473

		1976		1975
Retained Earnings				
Balance at beginning of year		**$371,218**		$339,351
Add:				
Net income for year	**$ 66,699**		$ 55,473	
Discount on preferred shares purchased for cancellation	**186**	**66,885**	50	55,523
		438,103		394,874
Deduct dividends declared:				
Preferred shares	**971**		980	
Common shares (including tax on undistributed income)	**23,113**	**24,084**	22,676	23,656
Balance at end of year		**$414,019**		$371,218

		1976		1975
Per Common Share Statistics				
Net income (after preferred dividends)		**$ 4.17**		$ 3.46
Dividends declared and tax thereon		**$ 1.46¾**		$ 1.44

See accompanying notes to consolidated financial statements

Dominion Foundries and Steel, Limited (Incorporated under the laws of Canada)

Consolidated statement of financial position

December 31, 1976 (with comparative figures at December 31, 1975 – in thousands of dollars)

	1976	1975
Current Assets:		
Cash	**$ 2,411**	$ 6,448
Short term securities at cost and accrued interest	**54,790**	—
Accounts receivable	**103,127**	94,764
Inventories (note 2)	**223,210**	243,034
Prepaid income taxes	—	4,066
	383,538	348,312
Current Liabilities:		
Bank indebtedness	**7,840**	15,577
Accounts payable and accrued charges	**99,592**	104,806
Amounts payable for employees' profit sharing	**7,652**	6,436
Income and other taxes payable	**9,259**	4,696
Dividends payable	**6,301**	5,878
Current requirements on long term debt (note 6)	**120**	120
	130,764	137,513
Working Capital	**252,774**	210,799
Fixed assets, less accumulated depreciation (note 3)	**618,345**	569,257
Undeveloped mining properties and rights, at cost	**10,025**	10,022
Investments (note 5)	**13,430**	10,913
Unamortized debenture discount and issue expense	**3,078**	2,066
Sundry assets at cost	**4,735**	3,835
Capital Employed	**902,387**	806,892
Deduct –		
Long term debt (note 6)	**242,710**	207,217
Income tax allocations relating to future years	**168,700**	151,200
	411,410	358,417
Shareholders' Equity	**$490,977**	$448,475
Represented by:		
Preferred shares (note 7)	**$ 20,166**	$ 20,582
Common shares (note 8)	**56,792**	56,675
Retained earnings	**414,019**	371,218
	$490,977	$448,475

On behalf of the Board:

F. H. Sherman, Director

J. D. Leitch, Director

See accompanying notes to consolidated financial statements

Consolidated statement of changes in financial position

for year ended December 31, 1976 (with comparative figures for 1975 – in thousands of dollars)

	1976	1975
Source of Funds:		
Operations –		
Net income for year	$ 66,699	$ 55,473
Depreciation	41,810	37,817
Income tax allocations relating to future years	17,500	18,800
Funds from operations	126,009	112,090
Increase in long term debt –		
Proceeds from debenture issue (net)	58,800	59,100
Increase in short term notes payable	—	22,157
Increase in revolving bank loan	1,700	—
Common shares issued for cash	118	—
Decrease in investments (net)	—	162
	186,627	193,509
Application of Funds:		
New facilities and equipment (after deducting investment tax credits, 1976 – $4,471; 1975 – $1,643) –		
Manufacturing	84,057	100,234
Mining	6,841	6,533
Undeveloped mining properties and rights	—	10,022
Reduction in long term debt –		
Debentures and bank loans	4,050	1,258
Short term notes payable	22,157	—
Preferred shares purchased for cancellation less discount	231	57
Increase in investments (net)	2,517	—
Dividends to shareholders	24,084	23,656
Other changes (net)	715	987
	144,652	142,747
INCREASE IN WORKING CAPITAL	41,975	50,762
WORKING CAPITAL AT BEGINNING OF YEAR	210,799	160,037
WORKING CAPITAL AT END OF YEAR	$252,774	$210,799

See accompanying notes to consolidated financial statements

Auditors' report

To the Shareholders of
Dominion Foundries and Steel, Limited:

We have examined the consolidated statement of financial position of Dominion Foundries and Steel, Limited as at December 31, 1976 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Hamilton, Canada,
January 24, 1977

CLARKSON, GORDON & CO.
Chartered Accountants

Notes to consolidated financial statements

December 31, 1976

1. Summary of principal accounting policies –

The principal accounting policies followed by the company and its subsidiaries have been summarized to facilitate review of the consolidated financial statements:

a) Basis of consolidation –
The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, as well as the company's share of the assets, liabilities and expenses of its unincorporated joint ventures (Sherman Mine and Wabush Mines). All significant intercompany transactions have been eliminated.

Investments in partnerships and corporate joint ventures are carried at Dofasco's share of equity therein and advances to such entities. Dofasco's share of their earnings is included in consolidated net income.

b) Inventories –
Inventories of materials, supplies, work-in-process and finished goods are valued at the lower of average cost and net realizable value. Physical inventory quantities are determined at least annually by actual examination or by aerial survey in the case of certain raw materials.

c) Fixed assets, relines and maintenance costs –
Fixed assets are recorded at their historical cost, which includes the cost of installation. Costs to bring a mineral property into production are capitalized as part of the cost of the property.

Investment tax credits related to fixed asset expenditures have been recorded as a reduction of the cost of fixed assets purchased.

Depreciation is computed on the straight-line method applied to the cost of the assets at rates based on their estimated useful life, as follows:

Buildings	2½ to 5%
Equipment	6 to 7½%
Automotive	20 to 25%
Mining facilities	4½ to 5%

The cost of relining blast furnaces is accrued on a unit of production method over the life of the existing lining.

Repairs, maintenance, research, development, current stripping at mines and quarries and start-up costs are expensed as incurred.

d) Income taxes –
The provision for income taxes in both years has been reduced by statutory deductions associated with mineral production and processing.

Income tax regulations permit the deduction of certain costs (principally depreciation) at a more rapid rate than the companies use in their accounts. The tax effect of these timing differences is recognized in the accounts as "income tax allocations relating to future years".

e) Revenue recognition –
Revenues from products and services and related costs are reflected in income when goods are shipped.

f) Pension plans –
The companies have funded retirement plans covering substantially all of the employees. Pension costs charged against income during the year, as determined by independent actuaries, include amounts for current and past service. Costs for unfunded past service will be amortized over periods not exceeding fifteen years.

g) Profit sharing on steelmaking operations –
For eligible employees involved in steelmaking operations, Dofasco pays 11% of steelmaking profits annually to The Employees' Savings and Profit Sharing Fund and The Deferred Profit Sharing Plan.

2. Inventories –

	1976	1975
Materials and supplies	$130,621,000	$133,263,000
Work-in-process and finished products	92,589,000	109,771,000
	$223,210,000	$243,034,000

3. Fixed assets –

	1976	1975
Manufacturing facilities and equipment, at cost	$ 900,290,000	$817,984,000
Mining facilities, at cost	148,298,000	141,953,000
	1,048,588,000	959,937,000
Less accumulated depreciation	430,243,000	390,680,000
	$ 618,345,000	$569,257,000

4. Commitments –

The amount required to complete authorized capital projects is estimated to be $288,000,000 at December 31, 1976.

Dofasco is a participant in Eveleth Expansion Company, an iron ore mining venture. It is entitled to receive 16% of the expanded production and is committed to pay its proportionate share of the operating costs (including interest) and payments on long term debt. The company's portion of the principal payments on debt outstanding at December 31, 1976 will average approximately U.S. $2.16 million annually commencing in 1978 for a period of eighteen years. Production commenced November 1, 1976.

5. Investments –

	1976	1975
Investments in partnerships and corporate joint ventures, at equity:		
Shares	$ 935,000	$ 1,298,000
Notes, mortgage bonds and other	7,834,000	4,670,000
	8,769,000	5,968,000
Coal companies, at cost:		
Shares	435,000	435,000
Advances	4,226,000	4,510,000
	4,661,000	4,945,000
	$ 13,430,000	$ 10,913,000

6. Long term debt –

	1976	1975
Sinking fund debentures –		
6½% due May 15, 1987	$ 26,638,000	$ 28,421,000
9% due February 1, 1991	44,507,000	46,009,000
10% due June 1, 1994	49,355,000	50,000,000
10⅞% due May 15, 1995	60,000,000	60,000,000
10⅜% due March 15, 1996	60,000,000	—
Short term notes payable (see below)	—	22,157,000
Revolving bank loan of BeachviLime Limited	1,700,000	—
Term bank loan of Prudential Steel Ltd.	630,000	750,000
Outstanding at December 31	242,830,000	207,337,000
Less current requirements	120,000	120,000
	$242,710,000	$207,217,000

On January 20, 1977, the company entered into an agreement for the sale to underwriters of $75,000,000 principal amount of 9⅝% sinking fund debentures due February 15, 1997 for a total consideration of $73,500,000. The estimated expenses in connection with the issue are $150,000.

Requirements for repayment within the next five years excluding revolving bank credit are as follows:

1977 – $120,000; 1978 – $120,000; 1979 – $4,110,000; 1980 – $7,780,000; 1981 – $10,380,000.

The following revolving bank credits (that are not repayable until their termination dates) are available:

Dofasco –

$100,000,000 terminating December 31, 1982 (none of which is being used at December 31, 1976) with interest at the rate of ⅜ of 1% in excess of the prime commercial rate. The company has the option to take $25,000,000 of the total in U.S. funds.

BeachviLime Limited –

$10,000,000 terminating February 28, 1986, with interest at the rate of ½ of 1% in excess of the prime commercial rate.

As Dofasco's long term revolving bank credit is available to replace the short term notes payable, these notes were classified in 1975 as long term debt.

7. Preferred shares –

Authorized – 500,000 preferred shares of the par value of $100 each, issuable in series.

Issued – 250,000 4¾% cumulative redeemable preferred shares, Series A, of which 201,655 shares are outstanding at December 31, 1976 (1975 – 205,825).

The company may redeem these shares at a premium of $2 per share to June 1, 1977 and at a reduced premium thereafter. In addition, the company must establish a purchase fund to redeem or purchase an aggregate amount of 2% per year of the outstanding preferred shares.

To December 31, 1976, 48,345 shares have been purchased for cancellation (including 4,170 shares during 1976 for $231,000) and consequently the company has met its purchase fund requirements.

In compliance with Section 62 of the Canada Corporations Act, retained earnings of $4,835,000 are designated as capital surplus.

8. Common shares –

Authorized – 25,000,000 Class A convertible common shares without nominal or par value.

– 25,000,000 Class B convertible common shares without nominal or par value.

Issued – 15,019,847 Class A common shares

731,307 Class B common shares

15,751,154 Total common shares

The Class A shares and Class B shares are convertible into each other on a share-for-share basis and rank equally in all respects, including dividends, except that, in the case of Class B shares, the directors may declare a tax-deferred dividend out of tax-paid undistributed surplus or 1971 capital surplus in an amount which, when added to the amount of any related tax, will equal the cash dividend on the Class A shares. As at December 31, 1976 the company had available:

1971 undistributed income on hand (any portion of which can be converted to tax-paid undistributed surplus by payment of a special 15% tax)	$99,600,000
1971 capital surplus (eligible without payment of tax after above surplus is utilized)	$35,600,000

The 1974 employee stock option plan, which expires March 28, 1984, authorizes the directors to grant options to employees of the company to purchase up to an aggregate of 480,000 of the unissued Class A shares. The number of shares covered by each option varies with changes in the optionee's remuneration and therefore cannot be determined until the last year of its term. Options to purchase an aggregate of 120,176 Class A shares have been granted (including 46,896 to directors and officers) at $28⅛ per share. During the year 4,192 Class A shares were issued under the plan for $118,000 cash. No options are held by directors who are not full-time employees.

The disclosure of fully diluted earnings per share, derived from the possible exercise of outstanding stock options, has been omitted as the effect is immaterial.

9. Retirement plans –

The estimated unfunded past service costs, not included in the accompanying financial statements at December 31, 1976, were $24,000,000 (1975 – $28,000,000).

10. Anti-Inflation Program –

Effective October 14, 1975 the federal government passed the Anti-Inflation Act and subsequently issued guidelines which are in force until December 31, 1978. Under this legislation the companies are subject to mandatory compliance with controls on prices, profit margins, employee compensation and shareholder dividends. Based on available information, management is of the opinion that Dofasco and its subsidiaries were in compliance with the Act and the guidelines at December 31, 1976.

Dividends to Dofasco's common shareholders during the year ending October 13, 1977 must not exceed $1.55 (including tax on undistributed income) per common share.

11. Sales –

Consolidated sales include sales by National Steel Car Corporation, Limited of $110,794,000 in 1976 ($104,518,000 in 1975).

12. Statutory information –

Expenses for 1976 include remuneration of directors and officers as follows:

a) Fees of twelve directors	$ 84,000
b) Remuneration of thirteen officers (including four directors)	1,255,000
Total remuneration of directors and officers	$1,339,000

The above includes directors' fees paid by National Steel Car Corporation, Limited of $2,700 and Prudential Steel Ltd. of $1,500.

Ten year summary of production and financial data

	1976	1975	1974
Statement of income data			
Sales*	$ 903,874	$738,083	$681,636
Cost of sales (excluding the following items)*	$ 741,190	$602,686	$526,900
Depreciation*	$ 41,810	$ 37,817	$ 34,884
Employees' profit sharing*	$ 8,652	$ 6,436	$ 11,107
Interest on long term debt (less discount on purchase of debentures)*	$ 22,972	$ 15,767	$ 9,678
Income from investments*	$ 6,249	$ 4,596	$ 7,935
Income before income taxes*	$ 95,499	$ 79,973	$107,002
Income taxes*	$ 28,800	$ 24,500	$ 36,600
Net income for year*	$ 66,699	$ 55,473	$ 70,402
Financial position data			
Working capital*	$ 252,774	$210,799	$160,037
Fixed assets* – land, buildings and equipment, at cost	$1,048,588	$959,937	$856,192
– accumulated depreciation	$ 430,243	$390,680	$355,885
Total other assets*	$ 31,268	$ 26,836	$ 15,090
Capital employed*	$ 902,387	$806,892	$675,434
Long term debt*	$ 242,710	$207,217	$126,318
Income tax allocations relating to future years*	$ 168,700	$151,200	$132,400
Total shareholders' equity*	$ 490,977	$448,475	$416,716
Statistical data			
Production of ingots and castings – net tons*	3,335	3,053	3,060
Net income per common share (after preferred dividends)	$ 4.17	$ 3.46	$ 4.41
Net income – percent of sales	7.4%	7.5%	10.3%
Net income – percent of average capital employed	7.8%	7.5%	11.3%
Net income – percent of average common shareholders' equity	14.6%	13.2%	18.7%
Net worth per common share	$ 29.89	$ 27.17	$ 25.15
Dividends – per common share	$ 1.46¾	$ 1.44	$ 1.26
– per preferred share	$ 4.75	$ 4.75	$ 4.75
Income reinvested in the business*	$ 42,615	$ 31,817	$ 49,577
Capital expenditures – manufacturing*	$ 84,057	$100,234	$ 84,837
Expenditures on mining properties*	$ 13,634	$ 18,522	$ 5,117
Total dividends declared*	$ 24,084	$ 23,656	$ 20,825
Number of holders of common shares	15,298	15,932	16,110
Percentage of common shares held in Canada	97.1%	97.4%	96.9%
Average number of employees	11,500	11,700	11,500

*in thousands

1973	1972	1971	1970	1969	1968	1967
$519,558	$443,775	$380,723	$331,658	$332,610	$280,128	$265,083
$384,343	$334,255	$295,011	$247,988	$235,522	$197,226	$195,860
$ 34,940	$ 32,922	$ 28,764	$ 26,246	$ 26,387	$ 24,570	$ 20,465
$ 10,033	$ 6,774	$ 5,429	$ 5,623	$ 6,493	$ 5,893	$ 4,776
$ 7,580	$ 9,053	$ 8,245	$ 3,977	$ 3,530	$ 4,867	$ 4,924
$ 2,079	$ 852	$ 1,145	$ 1,578	$ 3,113	$ 2,302	$ 908
$ 84,741	$ 61,623	$ 44,419	$ 49,402	$ 63,791	$ 49,874	$ 39,966
$ 32,200	$ 25,500	$ 16,400	$ 16,300	$ 21,800	$ 11,500	$ 15,400
$ 52,541	$ 36,123	$ 28,019	$ 33,102	$ 41,991	$ 38,374	$ 24,566
$107,238	$102,920	$ 95,496	$ 78,751	$ 83,392	$ 91,510	$ 79,337
$776,935	$733,450	$702,283	$618,838	$546,307	$501,156	$480,353
$329,741	$295,944	$263,805	$236,215	$210,433	$184,378	$160,569
$ 13,601	$ 14,013	$ 8,134	$ 7,501	$ 7,533	$ 7,557	$ 9,820
$568,033	$554,439	$542,108	$468,875	$426,799	$415,845	$408,941
$ 80,719	$112,963	$130,705	$ 80,530	$ 58,100	$ 68,624	$ 86,881
$120,100	$112,600	$104,200	$ 94,750	$ 93,750	$101,256	$101,617
$367,214	$328,876	$307,203	$293,595	$274,949	$245,965	$220,443
3,036	2,773	2,468	2,322	2,279	2,180	1,879
$ 3.29	$ 2.25	$ 1.74	$ 2.07	$ 2.64	$ 2.41	$ 1.52
10.1%	8.1%	7.4%	10.0%	12.6%	13.7%	9.3%
9.4%	6.6%	5.5%	7.4%	10.0%	9.3%	6.3%
15.8%	11.8%	9.7%	12.2%	17.2%	17.8%	12.4%
$ 21.99	$ 19.69	$ 18.33	$ 17.48	$ 16.29	$ 14.43	$ 12.71
$ .97½	$ .90	$ .90	$ .87½	$ .80	$ .70	$ .60
$ 4.75	$ 4.75	$ 4.75	$ 4.75	$ 4.75	$ 4.75	$ 4.75
$ 36,264	$ 21,057	$ 12,980	$ 18,470	$ 28,534	$ 26,443	$ 14,150
$ 37,566	$ 28,907	$ 52,029	$ 69,873	$ 43,016	$ 18,449	$ 22,748
$ 3,162	$ 2,570	$ 32,916	$ 2,735	$ 3,915	$ 3,499	$ 23,320
$ 16,277	$ 15,066	$ 15,039	$ 14,632	$ 13,457	$ 11,931	$ 10,416
16,272	16,629	17,958	19,511	20,183	20,444	19,696
96.4%	96.2%	95.7%	95.0%	94.2%	93.7%	92.7%
10,600	9,700	9,300	8,600	8,600	7,800	8,100

Dominion Foundries and Steel, Limited

Subsidiaries	Percentage Ownership
National Steel Car Corporation, Limited, Hamilton, Ontario*	100.0%
Prudential Steel Ltd., Calgary, Alberta*	100.0%
BeachviLime Limited, Beachville, Ontario*	100.0%

Mining Interests	
Adams Mine, Kirkland Lake, Ontario*	100.0%
Sherman Mine, Temagami, Ontario*	90.0%
Wabush Mines,* comprising: Scully Mine, Wabush, Newfoundland Arnaud Pellets, Pointe Noire, Quebec	16.4%
Eveleth Expansion Company, Minnesota†	16.0%
Itmann Coal Company, West Virginia†	9.0%

Corporate Joint Ventures	
Baycoat Limited, Hamilton, Ontario†	50.0%
International Portable Pipe Mills Ltd., Alberta†	47.8%
Arnaud Railway Company, Quebec†	16.4%
Wabush Lake Railway Company, Limited, Newfoundland†	16.4%
Knoll Lake Minerals Limited, Newfoundland†	9.5%
Northern Land Company Limited, Newfoundland†	8.2%
Twin Falls Power Corporation, Limited, Newfoundland†	2.8%

Transfer Agents and Registrars

National Trust Company, Limited –
Toronto, Montreal, Vancouver, Winnipeg, Calgary

Canada Permanent Trust Company – Halifax

The Bank of Nova Scotia Trust Company of New York – New York

*Ownership interest consolidated in Financial Statements
†Included under "Investments" in Financial Statements

Our product is steel...our strength is people

DOFASCO